TIP OF THE MONTH – 5 METRICS

Sometimes, the most telling numbers in your business are not necessarily on the monthly reports. Although the foundation of your finances revolves around the balance sheet and profit and loss account, there are a few numbers that, when known and tracked, can make a huge impact on your business decision-making, without getting “hung up” in Accounting.

Here are five:

1. Revenue per employee.

Even if you are a sole trader, revenue per employee can be an interesting number. It’s easy to compute: take total revenue for the year and divide by the number of employees you had during the year. You may need to average the number of staff in case you had leavers or joiners or to adjust it for part-time employees.

Whether your number is good or bad depends on the industry you’re in as well as a host of other factors. Compare it to prior years; is the number increasing (good) or decreasing (not so good)? If it’s decreasing you might want to investigate why. It could be you have new employees who need training so that productivity has slipped. It could also be that revenue has declined, and this sort of “scorekeeping” can direct your attention to problems or issues that might otherwise creep up on you.

2. Customer acquisition cost.

This is how much it costs you in marketing and selling costs to acquire a new customer. Factors such as annual revenue, or even ‘lifetime value of a client’ where repeat orders are the norm will affect how low or high you can allow this number to go.

3. **Cash burn rate.**

This is especially important for startups that have not shown a profit yet so they can figure out how much cash they need to borrow or raise to fund their venture. We often say that it takes several years rather than several months to become properly established: How fast do you go through cash? The cash burn rate calculates this for you. Compute the difference between your starting and ending cash balances and divide that number by the number of months it covers. The result is a monthly value.

4. **Revenue per customer**

Revenue per customer is a good measure to compare from year to year. Are customers spending more or less with you, on average, than last year?

5. **Customer retention.**

If you are curious as to how many customers return year after year, you can compute your client retention percentage. Make a list of all the customers who paid you last year. Then create a list of customers who have paid you this year. (You'll need to two full years to be accurate). Merge the two lists. Count how many customers you had in the first year. Then count the customers who paid you in both years. The formula is:

Number of customer who paid you in both years / Number of customers in the first or prior year * 100 = Customer retention rate as a percentage.

New customers don't count in this formula. You'll be able to see what percentage of customers came back in a year. With a little effort you can also modify this formula for any length of time you wish to measure, depending on the nature of your business.

Try any of these five metrics and you'll gain richer financial information about your business. We can help apply them, graph them, or discuss them as necessary, all without asking you to read a balance sheet!